

MACKINAC ISLAND PUBLIC SCHOOL

MACKINAC ISLAND, MICHIGAN



FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008



REHMANN ROBSON

Certified Public Accountants

MACKINAC ISLAND PUBLIC SCHOOL

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INDEPENDENT AUDITORS' REPORT

September 25, 2008

Board of Education
Mackinac Island Public School
Mackinac Island, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of ***Mackinac Island Public School*** (the "District"), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2008, and the respective changes in financial position thereof and the budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2008, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages I-VI is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the District. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, prominent 'L' at the beginning.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the *Mackinac Island Public School* (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2008.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$1,503,401 (*net assets*). The District's net capital assets exceeded the debt obligations in the amount of \$126,718, resulting in unrestricted net assets of \$1,376,683, which may be used to meet the District's ongoing obligations.
- The District's total net assets increased by \$110,482.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,397,894, an increase of \$35,441 in comparison with the prior year. Approximately 90%, or \$1,259,000, is *available for spending* at the District's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$1,257,376 or 96% percent of total General Fund expenditures (excluding transfers out).

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) District-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements. The *District-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the District-wide financial statements present functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include instruction, supporting services, payments to other public schools, food services and athletics. The District has no business-type activities as of and for the year ended June 30, 2008.

The government-wide financial statements can be found on pages 3-4 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the District-wide financial statements. However, unlike the District-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the District-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the District-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the 1999 School Building and Site Construction Debt Service Fund which are considered to be major funds. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund herein to demonstrate compliance with that budget.

The basic governmental fund financial statements can be found on pages 5-9 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are *not* reflected in the District-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 10-11 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 12-24 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 25-34 of this report.

District-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a District's financial position. In the case of the District, assets exceeded its liabilities by \$1,503,401 at the close of the fiscal 2008.

The District's net assets reflects its investment in capital assets (e.g., land, buildings, vehicles, and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Mackinac Island Public School Net Assets

| | <u>Governmental Activities</u> | |
|--|---------------------------------------|---------------------------|
| | <u>2008</u> | <u>2007</u> |
| Assets | | |
| Current assets | \$1,448,668 | \$1,425,091 |
| Capital assets, net of accumulated depreciation | <u>2,031,718</u> | <u>2,089,110</u> |
| Total assets | <u>3,480,386</u> | <u>3,514,201</u> |
| Liabilities | | |
| Current liabilities | 200,811 | 208,508 |
| Long-term liabilities | <u>1,776,174</u> | <u>1,912,774</u> |
| Total liabilities | <u>1,976,985</u> | <u>2,121,282</u> |
| Net assets | | |
| Invested in capital assets, net of related debt | 126,718 | 59,110 |
| Unrestricted | <u>1,376,683</u> | <u>1,333,809</u> |
| Total net assets | <u>\$1, 503,401</u> | <u>\$1,392,919</u> |

The District's net assets increased by \$110,482 during the current fiscal year.

**Mackinac Island Public School
Changes in Net Assets**

| | <u>Governmental Activities</u> | |
|------------------------------------|---------------------------------------|---------------------------|
| | <u>2008</u> | <u>2007</u> |
| Revenues | | |
| Program revenues | | |
| Charges for services | \$ 23,141 | \$ 13,421 |
| Operating grants and contributions | 53,398 | 25,678 |
| General revenues | | |
| Property taxes | 1,403,602 | 1,357,182 |
| State school aid | 117,765 | 123,447 |
| Unrestricted investment earnings | <u>50,347</u> | <u>71,726</u> |
| Total revenues | <u>1,648,253</u> | <u>1,591,454</u> |
| Expenses | | |
| Instruction | 818,363 | 781,715 |
| Support services | 503,379 | 477,108 |
| Payments to other public schools | 5,779 | 4,001 |
| Food services | 51,265 | 43,624 |
| Athletics | 20,342 | 12,604 |
| Interest on long-term debt | 84,415 | 89,777 |
| Depreciation – unallocated | <u>54,228</u> | <u>54,229</u> |
| Total expenses | <u>1,537,771</u> | <u>1,463,058</u> |
| Change in net assets | 110,482 | 128,396 |
| Net assets, beginning of year | <u>1,392,919</u> | <u>1,264,523</u> |
| Net assets, end of year | <u>\$1,503,401</u> | <u>\$1,392,919</u> |

Of the District's total revenues available to operate the District, approximately 1.4% or \$23,141 came from fees charged to those who benefited from the programs. Approximately 3.2% or \$53,398 came from other governments or organizations that subsidize certain programs with grants and other directed types of funding.

Local property taxes, in the amount of approximately \$1,403,602 million, mainly supported the remaining portion of the governmental activities. The property tax revenue represents 7.3 mills on all non-homestead property. The unrestricted state aid accounted for approximately 7.1% or \$117,765 of the revenue available. This revenue is determined by a formula that incorporates pupil head count, the annual per pupil allowance and the non-homestead property taxable value of the District.

Being in the business of educating children, the largest expenses were incurred in instruction, which accounted for approximately \$818,000 or 53.2% of total expenses. Support services amounted to approximately \$503,000 or 32.7% of total expenses, which includes such items as administration, transportation, maintenance and a variety of similar services that support the District's mission of educating children.

The District experienced an increase in net assets of \$110,482 or approximately 7.9%. This increase in net assets differs from the change in fund balance and a reconciliation appears later in the financial statements.

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,397,894, an increase of \$35,441 in comparison with the prior year. Approximately 90% of this total amount or \$1,259,634 constitutes *unreserved fund balance*, which is available for spending at the District's discretion. Of the reserved fund balance, approximately \$89,000 is reserved for debt service and approximately \$49,584 is reserved for future capital projects.

The General Fund is the principal operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$1,257,376, while total fund balance was \$1,306,960. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance represent approximately 94% and 98%, respectively of total General Fund expenditures (excluding transfers out).

The fund balance of the District's General Fund increased by \$34,008 during the current fiscal year. This increase is primarily attributable to the same factors that increased net assets, which were described above.

General Fund Budgetary Highlights

Generally, as additional information became known during the fiscal year, budget amendments are made as deemed necessary. No significant budget amendments were made during fiscal 2008.

The following were the difference between the final amended budget and actual results (all numbers are approximate):

- Local sources of revenue were \$1,261,015 rather than the \$1,234,104 final amended budgeted amount attributable mainly to an underestimate of property taxes to be collected by the District.
- State sources of revenue were \$115,178 rather than the \$90,000 final amended budgeted amount attributable to an underestimate of the Isolated District Grant to be received by the District.
- The District did not budget for federal revenues which were provided to the District in the amount of \$37,918.

- Instructional costs were \$823,699 rather than the \$803,428 final amended budget amount attributable mainly to salaries in secondary education.
- Support services were \$502,179 rather than the \$483,731 final amended budget amount attributable mainly to additional purchased services related to the library.
- Payments to other public schools were \$5,779 rather than \$12,000 as certain planned contractual services were not incurred.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2008, amounted to \$2,031,718 (net of accumulated depreciation). This investment in capital assets includes buildings and furniture and equipment. The land on which the school is built is owned by the City of Mackinac Island.

Mackinac Island Public School Capital Assets (net of depreciation)

| | <u>2008</u> | <u>2007</u> |
|----------------------------|---------------------------|---------------------------|
| Buildings and improvements | \$2,004,362 | \$2,058,590 |
| Furniture and equipment | <u>27,356</u> | <u>30,520</u> |
| Net capital assets | <u>\$2,031,718</u> | <u>\$2,089,110</u> |

Additional information on the District's capital assets can be found in Note III C on page 19 of this report.

Long-term debt. At the end of the current fiscal year, the District had total bonded debt outstanding of \$1,905,000. The District's total debt decreased by \$131,600 (6.4%) during the current fiscal year. Additional information on the District's long-term debt can be found in Note III F on page 21-22 of this report.

Factors Bearing on the District's Future

The following factors were considered in preparing the District's budget for the 2008-2009 fiscal year:

- Property tax increases consistent with the past several years.
- Wage and health insurance increases.
- Fascia repairs anticipated to cost approximately \$50,000.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Superintendent, Mackinac Island Public School, Mackinac Island, MI.

BASIC FINANCIAL STATEMENTS

DISTRICT-WIDE FINANCIAL STATEMENTS

MACKINAC ISLAND PUBLIC SCHOOL

STATEMENT OF NET ASSETS GOVERNMENTAL ACTIVITIES

JUNE 30, 2008

Assets

| | |
|---------------------------|------------------|
| Cash and cash equivalents | \$ 1,392,362 |
| Receivables | 56,306 |
| Capital assets, net | <u>2,031,718</u> |

Total assets

3,480,386

Liabilities

| | |
|---------------------------|------------------|
| Payables | 64,211 |
| Long-term liabilities | |
| Due within one year | 136,600 |
| Due in more than one year | <u>1,776,174</u> |

Total liabilities

1,976,985

Net assets

| | |
|---|------------------|
| Invested in capital assets, net of related debt | 126,718 |
| Unrestricted | <u>1,376,683</u> |

Total net assets

\$ 1,503,401

The accompanying notes are an integral part of these basic financial statements.

MACKINAC ISLAND PUBLIC SCHOOL

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2008

| Functions / Programs | Expenses | Program Revenues | | Net (Expense) Revenue |
|--------------------------------------|---------------------|-------------------------|--|--------------------------|
| | | Charges for Services | Operating Grants and Contributions | |
| Governmental activities | | | | |
| Instruction | \$ 818,363 | \$ - | \$ 29,056 | \$ (789,307) |
| Supporting services | 503,379 | 11,836 | 15,848 | (475,695) |
| Payments to other public schools | 5,779 | - | - | (5,779) |
| Food services | 51,265 | 11,305 | 8,494 | (31,466) |
| Athletics | 20,342 | - | - | (20,342) |
| Interest on long-term debt | 84,415 | - | - | (84,415) |
| Depreciation - unallocated | 54,228 | - | - | (54,228) |
| Total governmental activities | \$ 1,537,771 | \$ 23,141 | \$ 53,398 | (1,461,232) |
| General revenues | | | | |
| Property taxes - operations | | | | 1,195,403 |
| Property taxes - debt service | | | | 208,199 |
| State aid | | | | 117,765 |
| Unrestricted investment earnings | | | | 50,347 |
| Total general revenues | | | | 1,571,714 |
| Change in net assets | | | | 110,482 |
| Net assets, beginning of year | | | | 1,392,919 |
| Net assets, end of year | | | | \$ 1,503,401 |

The accompanying notes are an integral part of these basic financial statements.

FUND FINANCIAL STATEMENTS

MACKINAC ISLAND PUBLIC SCHOOL

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2008

| | General | 1999 School Building and Site Construction Debt Service Fund | Non- Major Funds | Total Governmental Fund |
|--|---------------------|--|------------------------|-------------------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,303,729 | \$ 88,676 | \$ (43) | \$ 1,392,362 |
| Accounts receivable | - | - | 4,110 | 4,110 |
| Due from other funds | 1,809 | - | - | 1,809 |
| Due from other governmental units | 52,196 | - | - | 52,196 |
| Total assets | \$ 1,357,734 | \$ 88,676 | \$ 4,067 | \$ 1,450,477 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities | | | | |
| Accounts payable | \$ 6,600 | \$ - | \$ - | \$ 6,600 |
| Salaries payable | 44,174 | - | - | 44,174 |
| Due to other funds | - | - | 1,809 | 1,809 |
| Total liabilities | 50,774 | - | 1,809 | 52,583 |
| Fund balances | | | | |
| Reserved | | | | |
| Debt service | - | 88,676 | - | 88,676 |
| Capital projects | 49,584 | - | - | 49,584 |
| Unreserved | | | | |
| Undesignated Special Revenue Funds | - | - | 2,258 | 2,258 |
| Undesignated General Fund | 1,257,376 | - | - | 1,257,376 |
| Total fund balances | 1,306,960 | 88,676 | 2,258 | 1,397,894 |
| Total liabilities and fund balances | \$ 1,357,734 | \$ 88,676 | \$ 4,067 | \$ 1,450,477 |

Continued...

The accompanying notes are an integral part of these basic financial statements.

MACKINAC ISLAND PUBLIC SCHOOL

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2008

Reconciliation of fund balance on the balance sheet for governmental funds to net assets of governmental activities on the statement of net assets

| | |
|--|--------------|
| Fund balances - total governmental funds | \$ 1,397,894 |
|--|--------------|

Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not financial resources and therefore are not therefore reported in the funds

| | | |
|--------|----------------------------|-----------|
| Add | - capital assets | 2,851,720 |
| Deduct | - accumulated depreciation | (820,002) |

Certain liabilities, such as bonds payable, are not due and payable in the current period and are not reported in the funds

| | | |
|--------|-------------------------------------|-------------|
| Deduct | - bonds payable | (1,905,000) |
| | - early retirement incentive | (7,774) |
| | - accrued interest on bonds payable | (13,437) |

| | |
|---------------------------------------|----------------------------|
| Net assets of governmental activities | <u><u>\$ 1,503,401</u></u> |
|---------------------------------------|----------------------------|

Concluded

The accompanying notes are an integral part of these basic financial statements.

MACKINAC ISLAND PUBLIC SCHOOL

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

| | General | 1999 School Building and Site Construction Debt Service Fund | Non- Major Funds | Total Governmental Funds |
|---|---------------------|--|------------------------|--------------------------------|
| Revenues | | | | |
| Local sources | | | | |
| Property taxes | \$ 1,195,403 | \$ 208,199 | \$ - | \$ 1,403,602 |
| Charges for services | - | - | 11,305 | 11,305 |
| Interest income | 46,790 | 3,482 | 75 | 50,347 |
| Other income | 27,684 | - | - | 27,684 |
| State sources | 115,178 | - | 2,587 | 117,765 |
| Federal sources | 29,056 | - | 8,494 | 37,550 |
| Total revenues | 1,414,111 | 211,681 | 22,461 | 1,648,253 |
| Expenditures | | | | |
| Instruction | 823,699 | - | - | 823,699 |
| Supporting services | 502,179 | - | - | 502,179 |
| Payments to other public schools | 5,779 | - | - | 5,779 |
| Food services | - | - | 50,565 | 50,565 |
| Athletics | - | - | 20,342 | 20,342 |
| Debt service | - | - | - | - |
| Principal | - | 125,000 | - | 125,000 |
| Interest | - | 85,248 | - | 85,248 |
| Total expenditures | 1,331,657 | 210,248 | 70,907 | 1,612,812 |
| Revenues over (under) expenditures | 82,454 | 1,433 | (48,446) | 35,441 |
| Other financing sources (uses) | | | | |
| Transfers in | - | - | 48,446 | 48,446 |
| Transfers out | (48,446) | - | - | (48,446) |
| Total other financing (uses) sources | (48,446) | - | 48,446 | - |
| Net change in fund balances | 34,008 | 1,433 | - | 35,441 |
| Fund balances, beginning of year | 1,272,952 | 87,243 | 2,258 | 1,362,453 |
| Fund balances, end of year | \$ 1,306,960 | \$ 88,676 | \$ 2,258 | \$ 1,397,894 |

Continued...

The accompanying notes are an integral part of these basic financial statements.

MACKINAC ISLAND PUBLIC SCHOOL

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

Reconciliation of the statement of revenues, expenditures and changes in fund balances of governmental funds to the statement of activities

| | | |
|--|----|--------|
| Net change in fund balances - total governmental funds | \$ | 35,441 |
|--|----|--------|

Amounts reported for *governmental activities* in the statement of activities is different because

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

| | | |
|--------|------------------------|----------|
| Deduct | - depreciation expense | (57,392) |
|--------|------------------------|----------|

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

| | | |
|-----|---|---------|
| Add | - principal payments on long-term liabilities | 125,000 |
|-----|---|---------|

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

| | | |
|-----|--|-------|
| Add | - decrease in accrual for early retirement incentive | 6,600 |
| | - decrease in accrued interest payable on bonds | 833 |

| | | |
|--|-----------|----------------|
| Change in net assets of governmental activities | \$ | 110,482 |
|--|-----------|----------------|

Concluded

The accompanying notes are an integral part of these basic financial statements.

MACKINAC ISLAND PUBLIC SCHOOL

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2008

| | Budget | | | Actual to Amended Budget Variance - Positive (Negative) |
|---|---------------------|---------------------|---------------------|--|
| | Original | Amended | Actual | |
| Revenues | | | | |
| Local sources | \$ 1,234,104 | \$ 1,234,104 | \$ 1,269,877 | \$ 35,773 |
| State sources | 90,000 | 90,000 | 115,178 | 25,178 |
| Federal sources | - | - | 29,056 | 29,056 |
| Total revenues | 1,324,104 | 1,324,104 | 1,414,111 | 90,007 |
| Expenditures | | | | |
| Education | | | | |
| Instruction | 803,428 | 803,428 | 823,699 | (20,271) |
| Supporting services | 483,479 | 483,731 | 502,179 | (18,448) |
| Payments to other public schools | 12,000 | 12,000 | 5,779 | 6,221 |
| Total expenditures | 1,298,907 | 1,299,159 | 1,331,657 | (32,498) |
| Revenues over (under) expenditures | 25,197 | 24,945 | 82,454 | 57,509 |
| Other financing uses | | | | |
| Transfers out | (46,900) | (46,900) | (48,446) | (1,546) |
| Net change in fund balance | (21,703) | (21,955) | 34,008 | 55,963 |
| Fund balance, beginning of year | 1,272,952 | 1,272,952 | 1,272,952 | - |
| Fund balance, end of year | \$ 1,251,249 | \$ 1,250,997 | \$ 1,306,960 | \$ 55,963 |

The accompanying notes are an integral part of these basic financial statements.

MACKINAC ISLAND PUBLIC SCHOOL

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2008

| | Private Purpose Trust Funds | Agency Fund |
|--|--|------------------------|
| | | |
| Assets | | |
| Cash | \$ 22,601 | \$ 31,533 |
| Investments | 107,076 | - |
| | | |
| Total assets | 129,677 | \$ 31,533 |
| | | |
| Liabilities | | |
| Due to student groups | - | \$ 31,533 |
| | | |
| Net assets, restricted for scholarships | \$ 129,677 | |

The accompanying notes are an integral part of these basic financial statements.

MACKINAC ISLAND PUBLIC SCHOOL
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

| | |
|--------------------------------|---------------------------------|
| Additions | |
| Contributions | \$ 1,000 |
| Investment earnings | <u>5,955</u> |
| Total additions | 6,955 |
| Deductions | |
| Scholarships | <u>4,707</u> |
| Change in net assets | 2,248 |
| Net assets, beginning of year | <u>127,429</u> |
| Net assets, end of year | <u><u>\$ 129,677</u></u> |

The accompanying notes are an integral part of these basic financial statements.

NOTES TO THE FINANCIAL STATEMENTS

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Mackinac Island Public School (the “District”) has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined that no entities should be consolidated into its basic financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only. The criteria for including a component unit include significant operational or financial relationships with the District.

B. District-wide and fund financial statements

The District-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended 2008.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the District-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The District-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the *General Fund* as a major governmental fund. The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The major *1999 School Building and Site Construction Debt Service Fund* accounts for the principal and interest payments on the bonds used to finance the 1999 construction project in the District.

Additionally, the District reports the following fund types:

The *Special Revenue Funds* account for the food service and athletic programs sponsored by the District.

The *Fiduciary Funds* account for assets held by the District in a trustee capacity or an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the District-wide financial statements.

The *Private Purpose Trust Funds* are accounted for using the accrual method of accounting. Private Purpose Trust Funds account for assets whereby both the principal and interest may be spent.

The *Agency Fund* is custodial in nature and does not present results of operations or have a measurement focus. The Agency Fund is accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds in an agency capacity (primarily student activities).

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the District-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and then unrestricted resources as they are needed.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided and 2) operating grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

The effect of interfund activity has been eliminated from the District-wide financial statements.

D. Assets, liabilities and equity

1. *Deposits and investments*

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value.

2. *Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). There were no interfund advance loans outstanding at June 30, 2008.

3. *Capital assets*

Capital assets, which include property and equipment, are reported in the governmental activities column in the District-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the District are depreciated using the straight line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|----------------------------|--------------|
| Buildings and improvements | 20-50 |
| Furniture and equipment | 5-20 |

4. *Long-term obligations*

In the District-wide financial statements, long-term obligations are reported as liabilities in the governmental activities statement of net assets. Where applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

5. *Termination benefits*

Early Retirement Incentive

Occasionally, the District offers special incentives to employees during a brief period to encourage early retirement. All early retirement incentives are accrued when incurred in the District-wide statements.

6. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund. All annual appropriations lapse at fiscal year end.

The General Fund is under formal budgetary control. Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles (GAAP), and are not significantly different from the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as originally adopted or as amended by the Board of Education. The budget for the General Fund is adopted on a functional basis.

Expenditures in the General Fund in excess of budget are as follows:

| | |
|----------------------------|-----------|
| Instruction | |
| Secondary | \$ 30,212 |
| Supporting Services | |
| Library | 19,467 |
| Executive administration | 6,359 |
| Fiscal services | 691 |
| Operations and maintenance | 5512 |
| Transfers out | 1,546 |

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets follows:

Statement of Net Assets

| | |
|---------------------------|--------------------|
| Cash and cash equivalents | <u>\$1,392,362</u> |
|---------------------------|--------------------|

Statement of Fiduciary Net Assets

Private Purpose Trust Funds

| | |
|---------------------------|--------|
| Cash and cash equivalents | 22,601 |
|---------------------------|--------|

| | |
|-------------|---------|
| Investments | 107,076 |
|-------------|---------|

Agency Fund

| | |
|---------------------------|---------------|
| Cash and cash equivalents | <u>31,533</u> |
|---------------------------|---------------|

| | |
|---|----------------|
| Total Statement of Fiduciary Net Assets | <u>161,210</u> |
|---|----------------|

**Total cash and cash equivalents
and investments**

\$1,553,572

All of the above balances are considered to be deposits for disclosure purposes.

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. State law does not require and the District does not have a policy for deposit custodial risk. As of the year ended June 30, 2008, \$1,373,560 of the District's bank balance of \$1,573,560 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The District believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the District evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Michigan law authorizes the District to deposit and invest in:

- (a) Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State. In a primary or fourth class school district, the bonds, bills, or notes shall be payable at the option of the holder upon not more than 90 days notice or, if not so payable, shall have maturity dates not more than 5 years after the purchase dates.

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

- (b) Certificates of deposit insured by a state or national bank, savings accounts of a state or federal savings and loan association, or certificates of deposit or share certificates of a state or federal credit union organized and authorized to operate in this state.
- (c) Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Securities issued or guaranteed by agencies or instrumentalities of the United States government or federal agency obligation repurchase agreements, and bankers' acceptance issued by a bank that is a member of the federal deposit insurance corporation.
- (e) Mutual funds composed entirely of investment vehicles that are legal for direct investment by a school district.
- (f) Investment pools, as authorized by the surplus funds investment pool act, composed entirely of instruments that are legal for direct investment by a school district.

The District's policy allows all of the above types of investments. The District does not have specific policies relating to credit risk, interest rate risk or custodial risk for investments.

B. Receivables

Receivables are comprised of the following:

| | |
|-----------------------------------|-------------------------|
| Accounts receivable | \$ 4,110 |
| Due from other governmental units | <u>52,196</u> |
| Total receivables | <u>\$ 56,306</u> |

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

C. Capital assets

Capital assets activity was as follows for the year ended June 30, 2008:

| | Balance July 1, 2007 | Additions | Deductions | Balance June 30, 2008 |
|--|-------------------------------------|---------------------------|--------------------|--------------------------------------|
| Capital assets being depreciated | | | | |
| Buildings and improvements | \$2,697,787 | \$ - | \$ - | \$2,697,787 |
| Furniture and equipment | <u>153,933</u> | <u>-</u> | <u>-</u> | <u>153,933</u> |
| Subtotal | <u>2,851,720</u> | <u>-</u> | <u>-</u> | <u>2,851,720</u> |
| Accumulated depreciation | | | | |
| Buildings and improvements | (639,197) | (54,228) | - | (693,425) |
| Equipment | <u>(123,413)</u> | <u>(3,164)</u> | <u>-</u> | <u>(126,577)</u> |
| Total accumulated depreciation | <u>(762,610)</u> | <u>(57,392)</u> | <u>-</u> | <u>(820,002)</u> |
| Governmental activities capital assets, net | <u>\$2,089,110</u> | <u>\$ (57,392)</u> | <u>\$ -</u> | <u>\$2,031,718</u> |

The land on which the school is built is owned by the City of Mackinac Island.

Depreciation expense was charged to functions/programs of the primary government as follows:

| | |
|-----------------------------------|-------------------------|
| Instructional services | \$ 1,264 |
| Support services | 1,200 |
| Food services | 700 |
| Depreciation – unallocated | <u>54,228</u> |
| Total depreciation expense | <u>\$ 57,392</u> |

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

D. Payables

Payables are comprised of the following:

| | |
|-------------------------------|-------------------------|
| Accounts payable | \$ 6,600 |
| Interest payable | 13,437 |
| Salaries and related payables | <u>44,174</u> |
| Total payables | <u>\$ 64,211</u> |

E. Interfund receivables, payables and transfers

The following balances represent individual fund interfund receivables and payables at June 30, 2008:

| | <u>Interfund Receivables</u> | <u>Interfund Payables</u> |
|--------------------|---|--------------------------------------|
| Due To/From | | |
| General fund | \$ 1,809 | \$ - |
| Nonmajor fund | | |
| Food service fund | <u>-</u> | <u>1,809</u> |
| Total | <u>\$ 1,809</u> | <u>\$ 1,809</u> |

The District reports interfund balances between certain funds. The sum of all balances presented in the tables above agrees with the sum of interfund balances presented in the balance sheet for governmental funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

For the year ended June 30, 2008, interfund transfers consisted of transfers from the General Fund to the Nonmajor Food Service and Athletics Funds in the amount of \$28,104 and \$20,342, respectively.

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended June 30, 2008, the District transferred funds to subsidize the food service and athletics programs.

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

F. Long-Term Debt

Long-term debt of the District consists of the following:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Amount Due Within One Year</u> |
|--|------------------------------|--------------------|----------------------------|---------------------------|---|
| Bonds payable | | | | | |
| General obligation debt | \$2,030,000 | \$ - | \$ (125,000) | \$1,905,000 | \$ 130,000 |
| Other liabilities | | | | | |
| Early retirement incentive | <u>14,374</u> | <u>-</u> | <u>(6,600)</u> | <u>7,774</u> | <u>6,600</u> |
| Total long-term liabilities | <u>\$2,044,374</u> | <u>\$ -</u> | <u>\$ (131,600)</u> | <u>\$1,912,774</u> | <u>\$ 136,600</u> |

Long-term liabilities at June 30, 2008 are as follows:

Bonds payable

General Obligation Bonds

1999 Building and Construction Bonds, due through 2019 in annual installments ranging from \$125,000 to \$205,000 with interest rates ranging from 4.00% to 4.35%.

\$1,905,000

Other liabilities

7,774

Total long-term liabilities

\$1,912,774

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

Bond debt service requirements

The annual requirements to service the bonds outstanding to maturity, including both principal and interest, are as follows:

| <u>Year Ending June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------------|---------------------------|--------------------------|---------------------------|
| 2009 | \$ 130,000 | \$ 80,620 | \$ 210,620 |
| 2010 | 140,000 | 75,420 | 215,420 |
| 2011 | 145,000 | 69,680 | 214,680 |
| 2012 | 155,000 | 63,736 | 218,736 |
| 2013 | 165,000 | 57,342 | 222,342 |
| 2014-2018 | 965,000 | 173,458 | 1,138,458 |
| 2019 | <u>205,000</u> | <u>8,918</u> | <u>213,918</u> |
| Total | <u>\$1,905,000</u> | <u>\$ 529,174</u> | <u>\$2,434,174</u> |

Interest expense was \$85,248 for the year ended June 30, 2008.

IV. OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation) as well as medical benefits provided to employees. The District has purchased commercial insurance for general liability, property and casualty and health claims and participates in the MASB/SET-SEG (risk pool) for claims relating to employee injuries/workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The shared-risk pool program in which the District participates operates as a common risk-sharing management program for school districts in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

B. Property taxes

Property taxes are assessed as of December 31, and attach as an enforceable lien on property as of July 1 of the following year. School related property taxes are levied on December 1, each year, based on the previous years assessment, by township governments whose boundaries include property within the District, and are due on February 28. Delinquent real taxes are advanced to the District by the County. Taxes are recorded as revenue in the year levied. Taxes receivable are recorded for property taxes collected within 60 days of year end, if any.

C. Defined benefit pension plan

Plan Description

The District contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions are established and must be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30171, Lansing, Michigan, 48909 or by calling 1-800-381-5111.

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 16.72% of annual covered payroll. The contribution requirements of plan members and the District are established by Michigan State statute and may be amended only by action of the State Legislature. The District's contributions to MPERS for the years ended June 30, 2008, 2007 and 2006 were \$103,371, \$100,278 and \$99,975 respectively, equal to the required contributions for each year.

MACKINAC ISLAND PUBLIC SCHOOL

NOTES TO THE FINANCIAL STATEMENTS

Other Post-employment Benefits

Retirees have the option of health coverage which is funded on a cash disbursement basis by the District. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.
2. Retirees with less than 30 years of service, who terminate employment after October 31, 1980 with the vested deferred benefits, are eligible for partially employer paid health benefit coverage (no payment if less than 21 years of service).

D. Commitments and Contingencies

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain cost may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement of the grantor or regulatory agencies. However, management does not believe such disallowances, if any, would be material to the financial position of the District.

As is the case with other entities, the District faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2008.

The District is a reimbursing employer to the Michigan Employment Security Commission and as such is responsible to pay the Commission for all benefits paid and charged to the District. As of June 30, 2008 appropriate liabilities have been recorded for all claims paid by the Commission which have been submitted to the District. However, no provision has been made for future payments that might result from claims unprocessed or unfiled.

* * * * *

COMBINING FUND STATEMENTS

MACKINAC ISLAND PUBLIC SCHOOL

COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2008

| | Special Revenue Funds | | Total Nonmajor Governmental Funds |
|--|-----------------------|-------------|--|
| | Food Service | Athletics | |
| ASSETS | | | |
| Cash and cash equivalents | \$ (43) | \$ - | \$ (43) |
| Accounts receivable | 4,110 | - | 4,110 |
| Total assets | \$ 4,067 | \$ - | \$ 4,067 |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities | | | |
| Due to other funds | \$ 1,809 | \$ - | \$ 1,809 |
| Fund balances | | | |
| Unreserved, undesignated | 2,258 | - | 2,258 |
| Total liabilities and fund balances | \$ 4,067 | \$ - | \$ 4,067 |

MACKINAC ISLAND PUBLIC SCHOOL

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

| | Special Revenue Funds | | Total Nonmajor Governmental Funds |
|---|------------------------------|------------------|--|
| | Food Service | Athletics | |
| Revenues | | | |
| Local sources | | | |
| Charges for services | \$ 11,305 | \$ - | \$ 11,305 |
| Interest income | 75 | - | 75 |
| State sources | 2,587 | - | 2,587 |
| Federal sources | 8,494 | - | 8,494 |
| Total revenues | 22,461 | - | 22,461 |
| Expenditures | | | |
| Food services | 50,565 | - | 50,565 |
| Athletics | - | 20,342 | 20,342 |
| Total expenditures | 50,565 | 20,342 | 70,907 |
| Revenues over (under) expenditures | (28,104) | (20,342) | (48,446) |
| Other financing sources | | | |
| Transfers in | 28,104 | 20,342 | 48,446 |
| Changes in fund balances | - | - | - |
| Fund balances, beginning of year | 2,258 | - | 2,258 |
| Fund balances, end of year | \$ 2,258 | \$ - | \$ 2,258 |

MACKINAC ISLAND PUBLIC SCHOOL

BALANCE SHEET GENERAL FUND

JUNE 30, 2008

| ASSETS | |
|---|----------------------------|
| Cash and cash equivalents | \$ 1,303,729 |
| Due from other funds | 1,809 |
| Due from other governmental units | <u>52,196</u> |
| Total assets | <u>\$ 1,357,734</u> |
| | |
| LIABILITIES AND FUND BALANCE | |
| Liabilities | |
| Accounts payable | \$ 6,600 |
| Salaries payable | <u>44,174</u> |
| Total liabilities | <u>50,774</u> |
| | |
| Fund balance | |
| Reserved for capital improvements | 49,584 |
| Unreserved, undesignated | <u>1,257,376</u> |
| Total fund balance | <u>1,306,960</u> |
| | |
| Total liabilities and fund balance | <u>\$ 1,357,734</u> |

MACKINAC ISLAND PUBLIC SCHOOL

**SCHEDULE OF REVENUES
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2008

| | |
|----------------------------|-----------------------------------|
| Revenues | |
| Local sources | |
| Property taxes | \$ 1,195,403 |
| Interest | 46,790 |
| Other local revenue | <u>27,684</u> |
| Total local sources | 1,269,877 |
| State sources | 115,178 |
| Federal sources | <u>29,056</u> |
| Total revenues | <u><u>\$ 1,414,111</u></u> |

MACKINAC ISLAND PUBLIC SCHOOL

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2008

Expenditures

Instruction

Basic programs

Elementary

| | |
|------------------------|------------|
| Salaries | \$ 256,210 |
| Employee benefits | 136,229 |
| Purchased services | 7,553 |
| Supplies and materials | 12,732 |

| | |
|-------------------------|----------------|
| Total elementary | 412,724 |
|-------------------------|----------------|

Secondary

| | |
|------------------------|---------|
| Salaries | 206,510 |
| Employee benefits | 114,526 |
| Purchased services | 7,339 |
| Supplies and materials | 6,471 |
| Capital outlay | 923 |

| | |
|------------------------|----------------|
| Total secondary | 335,769 |
|------------------------|----------------|

| | |
|-----------------------------|----------------|
| Total basic programs | 748,493 |
|-----------------------------|----------------|

Added needs

Special education

| | |
|--------------------|--------|
| Salaries | 34,056 |
| Employee benefits | 23,921 |
| Purchased services | 17,229 |

| | |
|--------------------------------|---------------|
| Total special education | 75,206 |
|--------------------------------|---------------|

| | |
|--------------------------|----------------|
| Total instruction | 823,699 |
|--------------------------|----------------|

Supporting services

Instructional staff

Library

| | |
|------------------------|--------|
| Salaries | 2,276 |
| Employee benefits | 433 |
| Purchased services | 16,236 |
| Supplies and materials | 830 |
| Capital outlay | 42,227 |

| | |
|----------------------|---------------|
| Total library | 62,002 |
|----------------------|---------------|

Continued...

MACKINAC ISLAND PUBLIC SCHOOL

**SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2008

| | |
|---|----------------|
| Academic student assessment | |
| Supplies and materials | \$ 815 |
| Total instructional staff | 62,817 |
| General administration | |
| Board of education | |
| Salaries | 3,045 |
| Purchased services | 13,973 |
| Total board of education | 17,018 |
| Executive administration | |
| Salaries | 124,547 |
| Purchased services | 12,345 |
| Employee benefits | 64,092 |
| Supplies and materials | 8,831 |
| Other | 2,746 |
| Total executive administration | 212,561 |
| Total general administration | 229,579 |
| Business | |
| Fiscal services | |
| Salaries | 7,391 |
| Supplies and materials | 2,000 |
| Total fiscal services | 9,391 |
| Total business | 9,391 |
| Operations and maintenance | |
| Salaries | 43,374 |
| Employee benefits | 36,104 |
| Purchased services | 28,237 |
| Supplies and materials | 60,783 |
| Capital outlay | 14,308 |
| Total operations and maintenance | 182,806 |

Continued...

MACKINAC ISLAND PUBLIC SCHOOL

**SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2008

| | |
|---|----------------------------|
| Pupil transportatin | |
| Purchased services | <u>\$ 17,586</u> |
| Total supporting services | <u>502,179</u> |
| Payments to other public schools | |
| ITV tuition costs | <u>5,779</u> |
| Total expenditures | 1,331,657 |
| Other financing uses | |
| Transfer out | <u>48,446</u> |
| Total expenditures and other financing uses | <u><u>\$ 1,380,103</u></u> |

Concluded

MACKINAC ISLAND PUBLIC SCHOOL

**COMBINING STATEMENT OF NET ASSETS
PRIVATE PURPOSE TRUST FUNDS**

JUNE 30, 2008

| | Private Purpose Trusts | | Total |
|--|---|---|--|
| | Stella King Scholarship Fund | John Franks Scholarship Fund | Private Purpose Trust Funds |
| | | | |
| Assets | | | |
| Cash and cash equivalents | \$ 7,130 | \$ 15,471 | \$ 22,601 |
| Investments | 1,000 | 106,076 | 107,076 |
| | | | |
| Net assets, restricted for scholarships | \$ 8,130 | \$ 121,547 | \$ 129,677 |

MACKINAC ISLAND PUBLIC SCHOOL

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS PRIVATE PURPOSE TRUST FUNDS

FOR THE YEAR ENDED JUNE 30, 2008

| | Private Purpose Trusts | | Total Private Purpose Trust Funds |
|--------------------------------|------------------------------------|------------------------------------|---|
| | Stella King Scholarship Fund | John Franks Scholarship Fund | |
| Additions | | | |
| Contributions | \$ 1,000 | \$ - | \$ 1,000 |
| Investment earnings | 100 | 5,855 | 5,955 |
| Total additions | 1,100 | 5,855 | 6,955 |
| Deductions | | | |
| Scholarship payments | 1,000 | 3,707 | 4,707 |
| Change in net assets | 100 | 2,148 | 2,248 |
| Net assets, beginning of year | 8,030 | 119,399 | 127,429 |
| Net assets, end of year | \$ 8,130 | \$ 121,547 | \$ 129,677 |

MACKINAC ISLAND PUBLIC SCHOOL

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES AGENCY FUND

FOR THE YEAR ENDED JUNE 30, 2008

| | Balances July 1, 2007 | Receipts | Disbursements | Balances June 30, 2008 |
|--|--------------------------------------|------------------|----------------------|---------------------------------------|
| ASSETS | | | | |
| Cash | \$ 30,586 | \$ 66,482 | \$ 65,535 | \$ 31,533 |
| LIABILITIES | | | | |
| Due to student groups | \$ 30,586 | \$ 66,482 | \$ 65,535 | \$ 31,533 |
| The balances at June 30, 2008 consist of the following | | | | |
| Due to student groups | | | | |
| Class of 2006 | \$ 58 | \$ 1 | \$ - | \$ 59 |
| Class of 2007 | 371 | 3 | 80 | 294 |
| Class of 2008 | 4,260 | 6,777 | 9,942 | 1,095 |
| Class of 2009 | 4,504 | 2,096 | 567 | 6,033 |
| Class of 2010 | 2,278 | 3,102 | 2,114 | 3,266 |
| Class of 2011 | 1,941 | 1,212 | 605 | 2,548 |
| Project Close-up | 1,298 | 4,558 | 2,777 | 3,079 |
| Travel Club | 4,787 | 3,312 | 2,019 | 6,080 |
| Kindness Fund | 295 | 3 | - | 298 |
| Miscellaneous | 432 | 33,149 | 32,496 | 1,085 |
| Video Fund | 322 | 3 | 23 | 302 |
| Yearbook | 1,875 | 1,239 | 1,394 | 1,720 |
| Golf | 4,797 | 42 | 678 | 4,161 |
| Sports Boosters | 2,086 | 10,973 | 12,840 | 219 |
| Arts Club | 1,282 | 12 | - | 1,294 |
| Total | \$ 30,586 | \$ 66,482 | \$ 65,535 | \$ 31,533 |



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

September 25, 2008

Board of Education
Mackinac Island Public School
Mackinac Island, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of *Mackinac Island Public School* (the "District"), as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements, as listed in the table of contents, and have issued our report thereon dated September 25, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control over financial reporting. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting. These deficiencies are referenced as 2008-1, 2008-2, and 2008-3.

Finding 2008-1: **Management is unable to produce financial statements in accordance with accounting principles generally accepted in the United States of America.**

Criteria: All Michigan governmental units are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the District's management. The preparation of the financial statements in accordance with GAAP requires internal controls over both (1) recording, processing and summarizing account data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting).

Condition: As is the case with many smaller and medium-sized entities, the District has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the District's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the District's internal controls.

Cause: This condition was caused by the District's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the District to perform this task internally.

Effect: As a result of this condition, the District lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

Recommendation: When feasible, the District should consider training internal accounting personnel to prepare the financial statements.

District's Response: Due principally to state budget cuts and the related negative impact on cash funds available to the District, the hiring of accounting personnel capable of writing the District's financial statements and footnotes in accordance with accounting principles generally accepted in the United States of America is cost prohibitive.

Finding 2008-2 **Lack of segregation of duties exists in the accounting function due to the limited number of accounting personnel.**

Criteria: All Michigan governments are required to establish internal control with segregation of responsibilities necessary to prevent a misappropriation of assets or fraudulent financial reporting. This is a responsibility of the District's management. Adequate segregation of duties as it relates to the cash cycle of a school district requires separation of the management function, the custody of assets function and the accounting function.

Condition: The District's staff does not allow for adequate separation of duties. Certain members of the accounting department are responsible for the custody of assets as well as for the accounting of those assets. Further, certain employees holding management positions also collect or disburse cash or account for the transactions of the District.

Cause: As is the case with many organizations of similar size, the District lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within the accounting function.

Effect: As a result of this condition, the District's system of internal control has safeguards in place to ensure that fraud or abuse is being prevented, specifically in the transactions of the cash cycle. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Recommendation: While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal controls by requiring as much independent review, reconciliation, and approval of accounting transactions by qualified members of management or the Board of Education.

District's Response: As noted above, due to decreased cash flows of the District, management is unable to employ the number of accounting personnel to attain an adequate separation of duties between management functions, accounting functions and custody of the District's assets. To the extent possible, duties are allocated between accounting personnel to mitigate risk of material misappropriation of assets. In addition, the District's Board of Education assumes a higher level of oversight responsibilities to mitigate risks related to this lack of segregation of duties.

Finding 2008-3 Recording, processing and summarizing accounting data

Criteria: All governments are required to have in place internal controls over recording, processing, and summarizing accounting data (i.e., maintaining internal books and records).

Condition: As is the case with many smaller and medium-sized entities, the District has historically relied on its independent external auditors to assist in the recording, processing and summarizing of certain accounting data as part of its external financial reporting process. Accordingly, the District has placed reliance on its *external* auditors, who cannot by definition be considered a part of the District's *internal* controls.

Cause: This condition was caused by the District's decision that it is more cost effective to have the external auditors recommend the necessary adjusting journal entries to its general ledger than to incur the time and expense of obtaining the necessary training and expertise required to the District to perform this task internally.

Effect: As a result of this condition, the District lacks internal controls over the recording, processing, and summarizing of accounting data, and instead relies, in part, on its external auditors for assistance with this task.

Recommendation: The District should record journal entries to reflect the cash to accrual adjustments and revenue reclassification prior to preparing trial balances to be used for preparation of year end financial statements.

District's Response: The District has evaluated the cost vs. benefit of establishing internal controls over the recording, processing, and summarizing of accounting data, and determined that it is in the best interests of the District to rely on its external auditors to recommend the necessary adjustments.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Findings 2008-1, 2008-2, and 2008-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the District in a separate letter dated September 25, 2008.

The District's response to the findings identified in our audit is described in the preceding paragraphs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management, others within the organization, the Board of Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



September 25, 2008

Superintendent and Members of
the Board of Education
Mackinac Island Public School
Mackinac Island, MI

In planning and performing our audit of the governmental activities, each major fund, and the aggregate remaining fund information of ***Mackinac Island Public School*** (the “District”) as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the District’s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we do not express an opinion on the effectiveness of the District’s internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District’s financial statements that is more than inconsequential will not be prevented or detected by the District’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District’s internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we identified certain deficiencies in internal control that we consider to be significant deficiencies and two significant deficiencies that we consider to be material weaknesses. These deficiencies have been documented in the *Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Governmental Auditing Standards*. Certain other matters related to operational or administrative efficiencies and improvements to internal controls are included on the following pages.

This communication is intended solely for the information and use of the Board of Education, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

This letter does not affect our report dated September 25, 2008 on the financial statements of the District.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

Encl.1

MACKINAC ISLAND PUBLIC SCHOOL
COMMENTS AND RECOMMENDATIONS
JUNE 30, 2008

EMPLOYMENT CONTRACTS

We noted during audit procedures applied to salaries, that certain teacher contracts had not been signed. The teacher contracts are the document binding the relationship between the District and its employees. A signed contract should be obtained from each teacher and placed in their personnel file at the beginning of each contract period. We recommend the related documents be signed and in future years, signed contracts be obtained before the first payroll of the District's calendar year is disbursed.

BUDGETING

We noted during the assistance that we provide in preparing the financial statements, that the District does not budget for federal revenues. The District receives federal revenue annually for Flowthrough and other grants. We recommend a budget line item be established to include Federal grants anticipated to be collected in each fiscal year.

CHECKS ISSUED PRIOR TO BOARD APPROVAL

While performing audit procedures related to cash disbursements, we noted normal recurring invoices that become due prior to a Board meeting have historically been issued prior to Board approval to meet the payment deadlines. The Board receives a listing of all checks issued at the Board meetings and approves the payments including those issued prior to the Board presentation. To prevent potential unauthorized payments, we recommend that a formal policy be adopted to describe the types of recurring payments that may be released prior to Board approval. We noted that a formal policy has not yet been adopted on checks issued prior to Board approval; however, we noted that supporting documentation for those checks issued between Board meetings was available to the Board if requested.

As noted above, we recommend that the Board adopt a formal policy on checks issued prior to Board approval.

PRIOR YEAR COMMENTS REVISITED

BANK ACCOUNT

During our audit procedures, we noted that the Mackinac Island Education Association has a bank account at First National Bank of St. Ignace. This account is under the Federal Employer Identification Number (EIN) of the *Mackinac Island Public School*. However, the District did not account for this bank account in its accounting records. We recommended that the District require the Mackinac Island Education Association open an account using its own EIN.

MACKINAC ISLAND PUBLIC SCHOOL
COMMENTS AND RECOMMENDATIONS

JUNE 30, 2008

HOT LUNCH FUND ACCOUNTS RECEIVABLE

We noted that the District held approximately \$3,300 in outstanding hot lunch accounts receivable as of June 30, 2007. Students and teachers are invoiced monthly for meals purchased the previous month. These balances are not monitored on a monthly basis resulting in certain amounts significantly past due.

This may result in certain balances becoming uncollectible. Alternatively, we recommend students and employees be billed “in advance” for the number of meals to be served that month. If the student or employee does not use the meals billed, the balance could carry over to the following month. Balances would be expected to be collected within the first 10 school days of the month, or no further meals would be served without payment. This would ensure that the District receives payment for meals served. Further, we recommend that the outstanding balances be monitored weekly with follow-up on all outstanding balances. This will ensure that all balances billed are collected and no uncollectible amounts are required to be written off. As of June 30, 2008, no significant changes have been made to the method in which the hot lunch receivables are being monitored. We continue to recommend that these accounts be monitored weekly with follow-up on all outstanding balances.

VENDOR PAYMENTS

Because there are only two employees within the accounting function – the Superintendent and the Office Manager, the documentation procedures related to the review and approval for payment of vendor invoices has generally by verbal. This however, provides no audit trail in terms of whether the expenditures were processed in accordance with the Districts purchase policy. To protect both the Office Manager and the Superintendent from potential opportunities for impropriety, we recommend that a formal process be documented and followed with respect to the purchasing system of the District.

Specifically, each invoice should be stamped when it is received with a template that would allow for the documentation of initials of approval, date of Board approval of payment, date of payment, general ledger account charged, and check number issued. Each processing date (generally weekly, biweekly or monthly), a folder of invoices to be paid should be presented to the Superintendent who would review each invoice for propriety and initial indicating approval for presentation to the Board for payment. A listing of approved invoices should then be presented to the Board for approval prior to issuing the checks for payment. The listing should be initialed by the Board Treasurer. Once approved, the checks would be run and notation would be made on the invoices of the check number, account charged and date of payment after which the paid invoices would be filed alphabetically by vendor name. This procedure will provide management with assurance that all checks issued are appropriately approved for payment and an appropriate audit trail would be provided. We noted during our audit procedures for the year ended June 30, 2008, that our recommendations are being followed. We would continue to recommend that a formal purchasing process be documented for future use in the event of changes in personnel or Board members.

MACKINAC ISLAND PUBLIC SCHOOL
COMMENTS AND RECOMMENDATIONS

JUNE 30, 2008

GASB 34 FUND

Governmental Accounting Standards Board (GASB) Statement No. 34 required governmental entities, such as schools, to present certain information in District-wide financial statements. The District successfully implemented GASB 34 for its year ending June 30, 2004. A separate fund is to be setup in order to account for GASB 34 requirements. However, the District currently does not have this fund set up on its trial balance. While the State of Michigan does not yet require this fund to be included in the District's accounting records, we recommended, and continue to recommend, that the District create this fund on its trial balance and adjust it annually.

STATE CHART OF ACCOUNTS

The District does not follow the state chart of accounts for its account numbering system, which requires a second set of numbers to be maintained. In an effort to better comply with the requirements of the state, we recommended in the prior year that the District work toward changing the numbering system to more closely follow the state requirements. During fiscal 2007, within the parameters allowed by the number of account number digits allowed by Quickbooks, the District has converted their account numbering system to more closely reflect the state requirements which has aided the Office Manager in preparing the FID for submission. The District did make the changes possible in Quickbooks during 2008, and has made additional changes in summer 2008 as they transition to the use of SDS accounting software.

OTHER MATTERS

MICHIGAN FINANCE QUALIFYING STATEMENT

All governmental units subject to the Revised Municipal Finance Act (PA34 of 2001) must submit a Michigan Finance Qualifying Statement that allows governmental units to be eligible to apply for financing during the fiscal year. The District must submit their qualifying statement electronically using the Michigan Department of Treasurer's website. The Office manager must contact the Local Audit Finance Division of the Department of Treasury to establish a password to access the system and electronically submit their qualifying statement. The qualifying statement is due to the Michigan Department of Treasury by December 31, 2008.

ELECTRONICALLY FILING THE FINANCIAL STATEMENTS

The Michigan Department of Treasury has issued Numbered Letter 2005-2 which requires (under the authority of Michigan Compiled Law 141.427(1) that all audits required in accordance with Public Act 2 of 1968 and Public Act 71 of 1919 be submitted electronically to the Treasury in a Portable Document Format (pdf) compatible with Adobe Acrobat. We have provided the necessary information, in this electronic format, to the Office Manager to enable the District to comply. The financial statements must be submitted by December 31, 2008.

MACKINAC ISLAND PUBLIC SCHOOL
COMMENTS AND RECOMMENDATIONS

JUNE 30, 2008

SEC RULE 15C-12 DISCLOSURE REQUIREMENTS

SEC Rule No. 240.15c2-12 requires issuers of municipal securities in principal amounts of \$1 million or more or whose outstanding aggregate debt exceeds \$10 million, to report financial and operational information as well as notice of material events to nationally recognized municipal securities information repositories annually. The District is subject to these reporting requirements. We recommend you contact your bond counsel who will generally assist in the preparation and timely submission of the annual disclosures required.

CONCLUSION

It has been a pleasure to provide audit services to *Mackinac Island Public School*. Thank you for providing all requested information.

We appreciate your business! Thank you.